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Poultry and Products

Annual

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Report Highlights:

Heavily hit in the first part of 2004 by unprecedented high feed prices both from domestic sources and the world market, the Romanian poultry industry is expected to recover by the end of the year and further into 2005. Demand for poultry and products maintains its upward trend, despite the recent steady appreciation of domestic prices. U.S. is consolidating its market share in Romania, becoming a stable supplier of relatively low-priced products (frozen broiler leg quarters).

Includes PSD Changes: Yes
Includes Trade Matrix: Yes
Annual Report
Sofia [BU1]
[RO]

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Production

After two years of growth, the Romanian poultry industry was heavily hit in 2003 by unprecedented high feed prices both from domestic sources (with draught-devastated feed crops) and the world market (which dramatically diminished soybean meal imports). Poultry inventories shrank with some 1 percent, but meat production was up 14 percent overall, although the largest contribution to this growth is reportedly attributed to come from small households, which typically grow layers for self-consumption.

Broiler meat production in industrial operations expanded by 9 percent, reaching (according to the Romanian Union of Poultry Producers) 185,000 MT carcass weight at the end of the year. The industry faced a downward scenario in the first part of 2004. Broiler meat production in January-May 2004 decreased with 2 percent compared to the same period of 2003. However, prospects for the second half of the year are more encouraging, mainly due to bumper grain and oilseed crops, which have already cheapened feed significantly. FAS Bucharest anticipates some recovery by the end of the year, although this is severely limited by a reported reduction in the breeding stock. Government support programs and productivity improvements are expected to contribute to a continued sector expansion in 2005, for which an 8 percent growth rate seems quite realistic. Though this forecast refers only to production obtained in large and small commercial operations, though individual households, which output never reaches the market, cover a large share (roughly 35 percent) of poultry meat consumption in Romania.

Productivity continued to increase in most farms. Weight gains per day in the first seven months of 2004 averaged 47 grams/day, varying, depending on farm performances between 42-50 grams/day. By comparison, during the same period of 2003, the average weight gains stood at 43 grams/day. In terms of input use efficiency, feed conversion ratios decreased from 1.99 kg feed/kg meat in January – July 2003 to 1.90 kg feed/kg meat in 2002.

Analysts show that there are good chances for Romania to be able to compete within the EU in the future when Romania becomes part of the EU. The key to competitiveness is the normally low cost of local corn, as Romania is net corn exporter and is expected to remain so. Though soybeans is a crop eligible for domestic support measures and production raised significantly in recent years, some soybeans will be likely needed in most years to meet domestic needs.

The industry concentration surged significantly in the past couple of years: the six largest operations account for roughly 50 percent of country's commercial production, but there are a significant number of small players, producing 1,500-2,000 MT/year. The large farms are fully integrated from reproduction, to slaughter and processing, and, occasionally, they even have they own distribution network. Smaller producers are not integrated and deliver their production to local slaughterhouses.

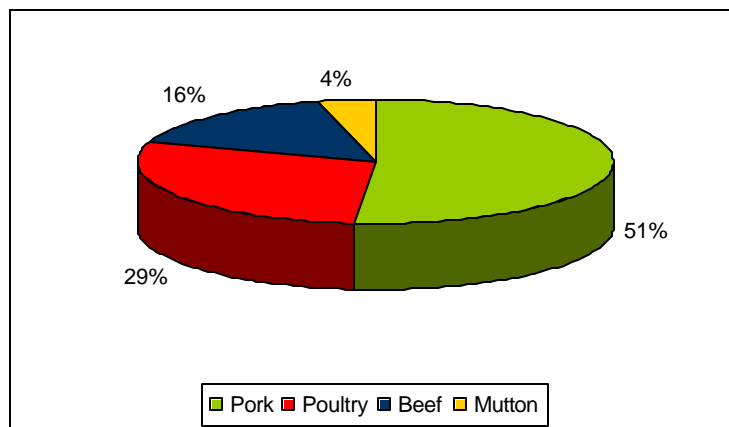
FDI level in the industry is one of the highest in agriculture, with investors from Middle East and EU, who generally acquired formerly state-owned farms. There is also interest for greenfield operations (recently, Banvit - the largest Turkish poultry company - revealed its intention to expand in Romania). Since labor costs in the industry are much lower than in EU, investments in new technologies have been made for raising quality of products that target export markets.

Romania							
Poultry, Meat, Broiler							
	2003	Revised	2004	Estimate	2005	Forecast	UOM
	USDA Official [Old]	Post Estimate [New]	USDA Official [Old]	Post Estimate [New]	USDA Official [Old]	Post Estimate [New]	
Market Year Begin		01/2003		01/2004		01/2005	MM/YYYY
Inventory (Reference)	0	0	0	0	0	0	(MIL HEAD)
Slaughter (Reference)	0	147	0	0	0	0	(MIL HEAD)
Beginning Stocks	0	0	0	0	0	0	(1000 MT)
Production	170	185	185	195	0	212	(1000 MT)
Whole, Imports	1	1	0	3	0	0	(1000 MT)
Parts, Imports	82	83	85	77	0	70	(1000 MT)
Intra EC Imports	0	0	0	0	0	0	(1000 MT)
Other Imports	0	0	0	0	0	0	(1000 MT)
TOTAL Imports	83	84	85	80	0	70	(1000 MT)
TOTAL SUPPLY	253	269	270	275	0	282	(1000 MT)
Whole, Exports	0	0	0	0	0	0	(1000 MT)
Parts, Exports	3	5	5	7	0	10	(1000 MT)
Intra EC Exports	0	0	0	0	0	0	(1000 MT)
Other Exports	3	0	5	0	0	0	(1000 MT)
TOTAL Exports	3	5	5	7	0	10	(1000 MT)
Human Consumption	250	254	265	258	0	262	(1000 MT)
Other Use, Losses	0	10	0	10	0	10	(1000 MT)
Total Dom. Consumption	250	264	265	268	0	272	(1000 MT)
TOTAL Use	253	269	270	275	0	282	(1000 MT)
Ending Stocks	0	0	0	0	0	0	(1000 MT)
TOTAL DISTRIBUTION	253	269	270	275	0	282	(1000 MT)
Calendar Yr. Imp. from U.S.	0	43	0	38	0	33	(1000 MT)

Consumption

Per capita meat consumption in Romania is about half of the EU average (92 KG). Romanians show a strong preference for pork (Graph 1), though chicken meat's share in the average diet is increasing.

Recent statistics show that in the first semester of the current year, poultry meat consumption reached 7.8 kilos/capita, that is, 4 percent up from the same period of 2003, while pork and beef consumption stood at 8.8 and, respectively 3.9 kilos/capita. This pattern cannot be extrapolated, though, for the whole year, because of the seasonality in pork consumption.

Graph 1. Meat Consumption Preferences

Consumers are not devoted to a single brand, but product availability (i.e., good distribution through supermarkets and smaller groceries) plus an acceptable price/quality ratio are factors that influence consumption of a certain brand. Generally, local market reveals a preference for dark poultry meat (legs) versus white meat (breast), therefore there is no significant price difference between the two.

Although price remains an important factor in shaping their behavior, domestic consumers are shifting to higher quality products. As a consequence, about 40 percent of locally produced poultry meat is sold chilled, rather than frozen. Important investments have been made in branding and better packaging the products.

High value-added chicken products (ready-to-cook) are not yet in demand on the local market.

Trade

Chicken meat export volume is insignificant compared to imports (see trade matrixes below).

Import Trade Matrix

Country Romania

Commodity Poultry, Meat, Broiler

Time Period

MY

Units:

MT

Imports for:

2003

January-June 2004

U.S.

43264

U.S.

19293

Others

Others

Brazil	26232		12400
Hungary	2221		1104
The Netherlands	2145		3125
Germany	1870		2576
Italy	1650		824
UK	1355		622
Belgium	1216		1264

Ireland	724		482
Canada	573		687
France	409		296
Total for Others	38395		23380
Others not Listed	1857		8456
Grand Total	83516		44236

Export Trade Matrix

Country	Romania		
Commodity	Poultry, Meat, Broiler		
Time Period	MY	Units:	MT
Exports for:	2003	January-June 2004	
U.S.	0	U.S.	0

Others		Others	
The Netherlands	3613		2672
UK	603		485
France	498		230
Germany	350		221
Bulgaria	107		
Switzerland	43		36
Greece	36		127
Total for Others	5250		3771
Others not Listed	38		27
Grand Total	5288		3798

In 2003, US supplied more than half of the total broiler meat imports and Brazil another 30 percent. The two countries have remained the main import sources in 2004. A good 90 percent of these imports are frozen parts (especially chicken leg quarters), despite a quite protectionist import regime, with MFN duties set up at 45 percent *ad valorem* (see Table 1).

In response to the import concessions granted by Romania, as shown in Table 1, in 2004 EU offers "zero treatment" to 3,900 MT of poultry meat (chilled or frozen) and 975 MT of processed poultry meat originated from Romania. Although the country started using these concessions, there are still significant sanitary-veterinary restrictions that prevent exports to EU.

Currently, there are only 6 poultry slaughterhouses and 4 processing units that fully comply with the EU requirements and eligible to ship to Member States. Seven slaughterhouses are being revamped to be compliant by the end of 2006, while for other two EU granted a transition period of additional three years, according to the recent documents stating the official closure of the Agricultural chapter in the bilateral negotiations. Under the optimistic

scenario that Romania joins EU in 2007, products from establishments subject to transitional arrangements will not be sold to other Member States and will be clearly identified.

Table 1. Romanian Bindings vs. Applied Tariffs in 2004 (percent)

HS Code		WTO bound tariff	2004 applied duty	Special EU preference
0207.11	Chicken cuts and edible offal, fresh or chilled (whole birds)	96	45	0 for TRQ (1)
0207.11	Chicken cuts and edible offal, frozen (whole birds)	96	45	0 for TRQ (1)
0202				
0207.14	Chicken cuts and edible offal, frozen	96	45	0 for TRQ (1)
0207.13	Chicken cuts and edible offal, fresh or chilled	96	45	0 for TRQ (1)
0207.27	Turkey cuts and edible offal (including liver) frozen	96	35	0 for TRQ (1)
1602.31	Meat and meat offal of turkeys, prepared or preserved, nesoi	180	45	0 for TRQ (2)
1602.32	Meat and meat offal of chicken, prepared or preserved nesoi	180		0 for TRQ (2)
1602.31	Meat and meat offal of turkeys, prepared or preserved nesoi	180	45	0 for TRQ (2)

(1) TRQ for poultry meat (fresh and frozen) in 2004 is 4050 MT.

(2) TRQ for prepared/preserved poultry meat in 2004 is 675 MT.

Broiler meat imports in 2004 are expected to stay close to previous year's level, with especially good prospects for frozen cuts, reasonably priced for low income population segments.

Prices

Ex-factory broiler meat prices surged significantly in the first half of 2004 as against the corresponding period of 2003, especially triggered by feed prices (Prices Table). Although breast meat price has increased more rapidly than prices for other products, the gap between dark and white meat is far less than in Western countries, because of the preference domestic consumers show for chicken legs (Table 2). More stable poultry prices are forecast for the second part of 2004, because of relatively cheap feed grains in a year with record yields for most crops.

Prices Table

Country Romania

Commodity Poultry, Meat, Broiler

Prices in per uom

Year	2003	2004	% Change
Jan	1147	1443	26%
Feb	1207	1497	24%
Mar	1235	1501	22%
Apr	1295	1504	16%
May	1354	1629	20%
Jun	1363	1728	27%
Jul	1494	1707	14%
Aug	1406		
Sep	1479		
Oct	1629		
Nov	1554		
Dec	1605		

Exchange Rate Montly official average Local Currency/US \$

Prices ex-factory (VAT not included)

Table 2. Ex-factory Broiler Meat Prices, US\$/MT, VAT Included (end-of-month)

	Whole birds	Bone-in breast	Bone-in legs
January	1,781	2,601	2,126
February	1,887	2,750	2,366
March	2,008	2,876	2,407
April	1,911	2,796	2,355
May	2,005	2,793	2,459
June	2,163	2,764	2,466
July	2,068	2,664	2,400

Source: Union of Romanian Poultry Producers

The official monthly average exchange rate is used in all cases.

Domestic Support Policy

In order to stimulate poultry inventories and production, the budgetary effort was increased in 2004, but outlays structure was pretty much similar to the one in 2003. The GOR intends to provide the sector with support until the moment Romania will join the EU, after which poultry production will not any longer be eligible, as the sector is liberalized in Member States. Some of the support programs qualify as Green Box"-type and are measures exempted from the reduction commitment (budgetary allocations to preserve the breeding stock), while others count in the Aggregate Measurement of Support, but still below the "de minimis level". The later type is disbursed as a procurement payment (market price support). In 2004, the eligible production is 127,000 MT lwe of chicken meat delivered for slaughtering, for which 643.5 billion lei (roughly, \$18.9 million) were budgeted. This is equivalent with a unit subsidy of 5000 ROL/kilo lwe, while for ecological broiler meat the unit subsidy increases to 7000 ROL/kilo (respectively, \$0.15 and 0.21 per kilo).

The Union of Poultry Producers assess that the effect of these programs was quite significant in stimulating commercial production in Romania.